

**Chase County Rural Water District #1
Chase County, Kansas**

**Regulatory Basis Financial Statement and
Independent Auditors' Report**

For the Year Ended December 31, 2018

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Chase County Rural Water District #1
Chase County, Kansas

Regulatory Basis Financial Statement
For the Year Ended December 31, 2018

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Independent Auditors' Report

To the Board
Chase County Rural Water District #1
Chase County, Kansas

I have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Chase County Rural Water District #1, Chase County, Kansas as of and for the year ended December 31, 2018 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Adverse Opinion on the U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, Chase County Rural Water District #1, Chase County, Kansas prepared this financial statement to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on the U.S. Generally Accepted Accounting Principles

In my opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Chase County Rural Water District #1, Chase County, Kansas, as of December 31, 2018, or the changes in its financial position or cash flows for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In my opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Chase County Rural Water District #1, Chase County, Kansas, as of December 31, 2018, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Regulatory – Required Supplementary Information

My audit was conducted for the purpose of forming an opinion on the summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedules of regulatory basis receipts and expenditures (schedule 1 as listed in the table of contents) is presented for analysis and are not a required part of the basic financial statement but are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Cindy Jensen CPA". The signature is written in a cursive, flowing style.

Cindy Jensen, CPA
October 1, 2019

Chase County Rural Water District #1
Chase County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2018

	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances & Accounts Payable	Ending Cash Balance
Special Purpose Funds							
Bond Reserve	32,292	0	0	0	32,292	0	32,292
Short Lived Asset Replacement	8,237	0	2,470	0	10,707	0	10,707
Business Fund							
Water	131,891	0	117,365	118,856	130,400	240	130,640
Total Reporting Entity	<u>\$ 172,420</u>	<u>\$ 0</u>	<u>\$ 119,835</u>	<u>\$ 118,856</u>	<u>\$ 173,399</u>	<u>\$ 240</u>	<u>\$ 173,639</u>

Composition of Cash Balance:

Checking	\$ 164,781
Savings-Cottonwood Valley	\$ 4,259
Savings-Citizens	4,599
Total Reporting Entity	<u>\$ 173,639</u>

The accompanying notes are an integral part of this statement.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
December 31, 2018

Note 1 – Summary of Significant Accounting Policies

The District has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the District's accounting policies are described below.

Financial Reporting Entity

Chase County Rural Water District #1 is a municipal corporation governed by an elected seven-member board. The District's major operation is a water distribution system. The District has no related municipal entities.

Regulatory Basis Fund Types

The accounts of the District are organized and operated on the basis of funds, which are used to record the District's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State statutes. The following types of funds comprise the financial activities of the District:

Special Purpose fund – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long term debt) that are intended for specified purposes.

Business fund – these funds are financed in whole, or in part, by fees charged to users of the goods and services.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures of the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables or any other assets, liabilities or deferred inflows, other than those mentioned above.

The District has approved a resolution that is in compliance-with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

Budgetary Information

Rural water districts are not subject to Kansas statutes regarding a legally adopted budget.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
December 31, 2018

Note 2 – Stewardship, Compliance, and Accountability

Compliance with Finance-Related Legal and Contractual Provisions

References made herein to the statutes are not intended as interpretations of law but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

Management is not aware of any regulatory violations for the period covered by this audit.

Note 3 – Cash and Deposits

K.S.A. 9-1401 established the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - State statutes place no limit on the amount the Municipality may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2018.

At year-end, the carrying amount of the District's deposits was \$173,639. Actual bank statement balances were \$178,057. The difference between the carrying amount and the bank balance is composed of checks that have not cleared and deposits in transit. The bank balance was held at two banks resulting in a concentration of credit risk. The entire bank balance was covered by FDIC insurance. The District held no investments on December 31, 2018.

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
December 31, 2018

Note 4 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Commercial insurance is purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

Note 5 – Contracts and Commitments

The District joined together with the City of Strong City and the City of Cottonwood Falls to form Public Wholesale Water Supply District No. 26 (PWWSD). The purpose of the PWWSD is to produce, treat, transport, distribute, and sell an adequate source of water wholesale to its members, including the District, in the future. The initial sales price of water is \$5.29 per thousand gallons and with a minimum commitment of 783,333 gallons per month. The contract extends forty years from the date of the initial delivery of water.

Note 6 – Benefit Unit Deposits

Current members joining the water district are required to make a deposit of \$1500 for a benefit unit. Rates for benefit units have varied from \$500 to \$1,500 since inception in 1973.

Note 7 – Long-Term Debt

USDA Loan In June 2014, the District received an USDA-RD loan of \$782,000 for improvements to its water distribution system. The loan carries an interest rate of 2.75%. Forty annual payments beginning June 4, 2016 are scheduled with the first principal payment on June 4, 2017 and the last payment June 4, 2054.

Changes in Long-Term debt for the year ended December 31, 2017 were as follows:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Due January 1</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance Due December 31</u>	<u>Interest Paid</u>
USDA-RD loan	2.75%	6/4/2014	782,000	6/4/2054	742,447	0	12,026	730,421	20,266
Other									
Total contractual indebtedness					<u>\$ 742,447</u>	<u>\$ 0</u>	<u>\$ 12,026</u>	<u>\$ 730,421</u>	<u>\$ 20,266</u>

Chase County Rural Water District #1
Chase County, Kansas

Notes to the Financial Statement
December 31, 2018

Note 7 – Long-Term Debt (Cont)

Current maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

Year	USDA-RD Loan Principal	USDA-RD Loan Interest	USDA-RD Loan Total
2019	\$ 12,361	\$ 19,931	\$ 32,292
2020	12,650	19,642	32,292
2021	13,058	19,234	32,292
2022	13,421	18,871	32,292
2023	13,795	18,497	32,292
2024-2028	74,852	86,608	161,460
2029-2033	85,934	75,526	161,460
2034-2038	98,589	62,871	161,460
2039-2043	113,109	48,351	161,460
2044-2048	129,755	31,705	161,460
2049-2053	148,890	12,570	161,460
2054	14,007	101	14,108
	<u>\$ 730,421</u>	<u>\$ 413,907</u>	<u>\$ 1,144,328</u>

Note 8 – Transfers

From	To	Authority	Amount
Water	Short Lived Assets	USDA Letter of Conditions	\$ 2,470

Note 9 – Evaluation of Subsequent Events

Management has evaluated the effect on the financial statement of subsequent events occurring through the date of this report which is the date that the financial statement was available to be issued.

**Regulatory – Required
Supplementary Information**

Chase County Rural Water District #1
Chase County, Kansas

Schedule 1A

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2018

BOND RESERVE

	Current Year Actual
Receipts	
Transfer in	\$ 0
Other	0
Total Receipts	<u>0</u>
Expenditures	
Bond payments	0
Other	0
Total Expenditures	<u>0</u>
Receipts Over (Under) Expenditures	0
Unencumbered Cash, January 1	<u>32,292</u>
Unencumbered Cash, December 31	<u>\$ 32,292</u>

See Accompanying Auditor's Report.

Chase County Rural Water District #1
Chase County, Kansas

Schedule 1B

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2018

SHORT LIVED ASSET REPLACEMENT

	Current Year Actual
Receipts	
Transfers In	\$ 2,470
Other	0
Total Receipts	<u>2,470</u>
Expenditures	
Short Lived Asset Replacement	0
Other	0
Total Expenditures	<u>0</u>
Receipts Over (Under) Expenditures	2,470
Unencumbered Cash, January 1	<u>8,237</u>
Unencumbered Cash, December 31	<u><u>\$ 10,707</u></u>

See Accompanying Auditor's Report.

Chase County Rural Water District #1
Chase County, Kansas

Schedule 1C

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2018

WATER FUND

	Current Year Actual
Receipts	
Water sales	\$ 116,307
Interest	96
Other Receipts	962
Total Receipts	<u>117,365</u>
Expenditures	
Dues & fees	819
Contractual	10,130
Insurance	733
Loan payments	32,292
Water protection fee	551
Office	1,387
Professional	3,000
Repairs	2,449
Supplies	1,050
Utilities	931
Water purchased	62,744
Other expense	300
Transfers out	2,470
Total Expenditures	<u>118,856</u>
Receipts Over (Under) Expenditures	(1,491)
Unencumbered Cash, January 1	<u>131,891</u>
Unencumbered Cash, December 31	<u><u>\$ 130,400</u></u>

See Accompanying Auditor's Report.